

**SANTA CLARA COUNTY  
OFFICE OF EDUCATION**

**FINANCIAL STATEMENTS**  
June 30, 2015

SANTA CLARA COUNTY OFFICE OF EDUCATION

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2015  
(Continued)

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SANTA CLARA COUNTY OFFICE OF EDUCATION

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Santa Clara County Office of Education  
San Jose, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Clara County Office of Education, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Santa Clara County Office of Education's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Clara County Office of Education, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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(Continued)

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Also, in November 2013 the GASB issued GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". As discussed in Notes 7 and 8, GASB Statements No. 68 and No. 71 are effective for the District's fiscal year ending June 30, 2015. These Statements replace the requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB Statement No. 50, "Pension Disclosures." GASB Statements No. 68 and No. 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as well as identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information (RSI) requirements about pensions are also addressed. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 11 and the County School Service Fund Budgetary Comparison Schedule, Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the County Office's Proportionate Share of the Net Pension Liability, and the Schedule of the County Office's Contributions on pages 48 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Clara County Office of Education's basic financial statements. The accompanying schedule of expenditure of federal awards as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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(Continued)

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 on our consideration of Santa Clara County Office of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Clara County Office of Education's internal control over financial reporting and compliance.



Crowe Horwath LLP

Sacramento, California  
December 15, 2015

# SANTA CLARA COUNTY OFFICE OF EDUCATION

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

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This management discussion and analysis of Santa Clara County Office of Education's (the County) financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the County's financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

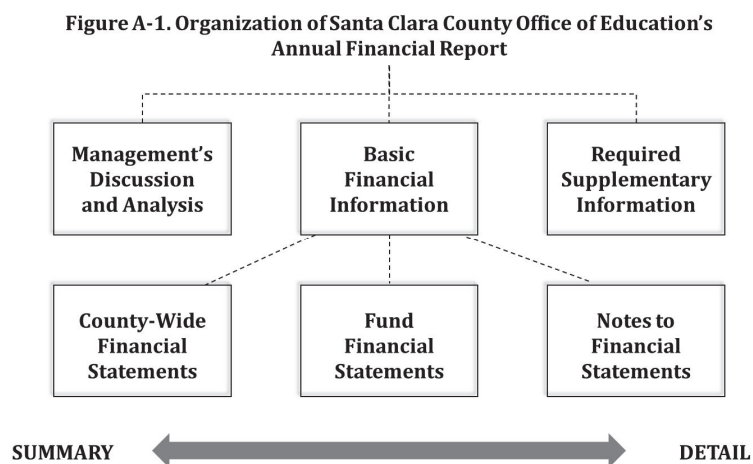
- The County's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$597k, or 0.35%.
- Governmental expenses were about \$207.9 million. Revenues were about \$208.5 million.
- The County spent over \$1.9 million on new capital assets during the year.
- The County increased its outstanding long-term debt by \$30.9 million. This was primarily due to new pension liability and other post-employment benefits.
- Average daily attendance (ADA) decreased by 132, or 27.6% mainly due to closing of two sites.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *county-wide financial statements* that provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the County that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
  - *Fiduciary funds* statement provides information about the financial to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another



**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2015*

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain.

**Figure A-2. Major Features of the County-Wide and Fund Financial Statements**

<b>Type of Statements</b>	<b>County-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire County, except fiduciary activities	The activities of the County that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the County that operate like a business, such as self-insurance funds	Instances in which the County administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, &amp; Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The County's funds do not currently contain nonfinancial assets, though they can	all assets and liabilities, both short-term and long-term; The County's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid



## SANTA CLARA COUNTY OFFICE OF EDUCATION

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

#### County-Wide Statements

The County-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two county-wide statements report the County's net position and how it has changed. Net position – the difference between the County's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the County's financial health, or *position*.

- Over time, increases and decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional nonfinancial factors such as changes in the County's demographics and the condition of school buildings and other facilities.
- In the County-wide financial statements, the County's activities are categorized as *Governmental Activities*. Most of the County's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by debt covenants.
- The County establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The County has three kinds of funds:

- 1) **Governmental funds** – Most of the County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the county-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

## SANTA CLARA COUNTY OFFICE OF EDUCATION

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

#### Fund Financial Statements (continued)

- 2) **Proprietary funds** – When the County charges other County funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the County's internal service fund is included within the governmental activities reported in the County-wide statements but provide more detail and additional information, such as cash flows. The County uses the internal service fund to report activities that relate to the County's self-insured program for workers compensation claims.
- 3) **Fiduciary funds** – The County is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

### FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

**Net Position.** The County's combined net position was lower on June 30, 2015, than it was the year before – decreasing by 136 million or 100.8% (See Table A-1), which was due to \$136.6 million restatement of the beginning balance (due to the adaption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*) in current year.

Table A-1

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014	
<b>Assets</b>			
Current assets	\$ 128.0	\$ 129.0	\$ (1.0)
Capital assets	66.0	67.7	(1.7)
<b>Total assets</b>	<u>194.0</u>	<u>196.7</u>	<u>(2.7)</u>
<b>Deferred outflows of resources</b>			
Pensions	10.0	-	10.0
<b>Total deferred outflows of resources</b>	<u>10.0</u>	<u>-</u>	<u>10.0</u>
<b>Liabilities</b>			
Current liabilities	20.2	37.5	(17.3)
Long-term liabilities	150.7	24.3	126.4
<b>Total liabilities</b>	<u>170.9</u>	<u>61.8</u>	<u>109.1</u>
<b>Deferred inflows of resources</b>			
Pensions	34.2	-	34.2
<b>Total deferred inflows of resources</b>	<u>34.2</u>	<u>-</u>	<u>34.2</u>
Net position			
Net investment in capital assets	57.0	58.0	(1.0)
Restricted	19.5	15.7	3.8
Unrestricted	(77.6)	61.2	(138.8)
<b>Total net position</b>	<u>\$ (1.1)</u>	<u>\$ 134.9</u>	<u>\$ (136.0)</u>

## SANTA CLARA COUNTY OFFICE OF EDUCATION

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

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### FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (continued)

**Changes in net position, governmental activities.** The County's total revenues decreased by 22.1% to \$208.5 million (See Table A-2). The increase was due primarily to increases in federal special education funding.

The total cost of all programs and services also decreased 18.0% to \$207.9 million. The County's expenses are predominantly related to educating and caring for students, 58.6%. The purely administrative activities of the County accounted for just 9.2% of total costs. A significant contributor to the decrease in revenues and costs was increased transfers to other agencies for special education.

**Table A-2**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014	
Total Revenues	\$ 208.5	\$ 267.8	\$ (59.3)
Total Expenses	207.9	253.6	(45.7)
Increase (decrease) in net position	\$ 0.6	\$ 14.2	\$ (13.6)

### FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed this year, its governmental funds reported a combined fund balance of \$76.5 million, which is less than last year's ending fund balance of \$77.7 million.

#### County School Services Fund Budgetary Highlights

Over the course of the year, the County revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$14.3 million primarily to reflect state budget actions.
- Salaries and benefits costs – increased \$5.2 million due to changes in staffing and collective bargaining agreements
- Other non-personnel expenses – increased \$31.4 million to re-budget carryover funds and revise operational cost estimates.

While the County's final budget for the County School Service Fund anticipated that expenditures would exceed revenues by about \$15.9 million, the actual results for the year show that expenditures exceeded revenues by approximately \$144k. Actual revenues were \$6.3 million less than anticipated, but expenditures were \$22.1 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2015 that will be carried over into the 2015-16 budget.

## SANTA CLARA COUNTY OFFICE OF EDUCATION

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of 2014-15, the County had invested \$1.9 million in new capital assets. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year exceeded \$3.5 million.

**Table A-3: Capital Assets at Year-End, Net of Depreciation**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014	
Land	\$ 5.5	\$ 5.5	\$ -
Building and improvements	57.2	58.6	(1.4)
Furniture and equipment	3.3	3.6	(0.3)
Total	<u>\$ 66.0</u>	<u>\$ 67.7</u>	<u>\$ (1.7)</u>

#### Long-Term Debt

At year-end the County had \$150.8 million in long term liabilities – a decrease of 17% from last year – as shown in Table A-4. (More detailed information about the County's long-term liabilities is presented in Note 5 to the financial statements).

**Table A-4: Outstanding Long-Term Debt at Year-End**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014*	
Certificates of participation	\$ 9.0	\$ 9.7	\$ (0.7)
Net pension liability	111.8	146.0	(34.2)
Compensated absences	5.1	5.4	(0)
Claims liability	12.2	11.4	1
Other postemployment benefits	12.7	9.2	3.5
Total	<u>\$ 150.8</u>	<u>\$ 181.7</u>	<u>\$ (30.9)</u>

\* As restated

## SANTA CLARA COUNTY OFFICE OF EDUCATION

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2015*

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### FACTORS BEARING ON THE COUNTY'S FUTURE

#### **Budget Overview**

The Governor signed the *2015-16 Budget Act* on June 24, 2015. The 2015-16 budget package assumes total state spending of \$161 billion, an increase of 5.71 percent over revised totals for 2014-15. This consists of \$115.3 billion from the General Fund and \$45.7 billion from special funds. The budget package assumes spending from federal funds to be \$98 billion, an increase of 4.7 percent over 2014-15 enacted levels. Bond spending is expected to increase 40 percent in 2015-16.

#### **Major Features of the 2015-16 Spending Plan**

Similar to the 2014-15 budget, the 2015-16 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities, and saves for a rainy day as the implementation of Proposition 2. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be “triggered” under the budget plan.

#### ***Fully Funds CalSTRS Pension Program***

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers. Consistent with this strategy, the 2015-16 budget includes \$1.9 billion General Fund for state contributions to CalSTRS.

#### ***Proposition 98***

The 2015-16 budget includes Proposition 98 funding of \$68.4 billion, an increase of \$7.6 billion over the 2014-15 enacted budget. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

#### **Spending Changes**

Funding for K-14 education continues to increase under the new budget package. In the sections that follow, we describe how the State is spending these funds.

#### **Deferral Payments**

#### ***Pays Down \$5.2 Billion in Outstanding Deferrals***

The budget package pays down \$5.2 billion in outstanding deferrals (\$4.7 billion for schools and \$498 million for community colleges). Of the total paydown, \$1.4 billion is designated as 2012-13 spending, \$3.1 billion is designated as 2013-14 spending, \$662 million is designated as 2014-15 spending, and the 2015-16 budget eliminates all remaining outstanding deferrals.

#### **Mandates**

#### ***Pays Down \$450 Million in Outstanding Education Mandate Claims***

We estimate the State currently has a backlog of more than \$5 billion in unpaid claims for education mandates. While the 2014-15 budget includes \$400 million to reduce the mandate backlog for schools, the 2015-16 budget includes an increase of \$3.2 billion in one-time Proposition 98 General Fund. Funds will be distributed to schools and community colleges on a per-student basis. These funds will make a significant down payment on the outstanding mandate debt, while providing school districts, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.

## SANTA CLARA COUNTY OFFICE OF EDUCATION

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2015*

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### **FACTORS BEARING ON THE COUNTY'S FUTURE (continued)**

#### **K-12 Education**

The largest K-12 augmentation is for the third-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

#### **Operational Funding**

##### ***LCFF Implementation***

The budget plan includes an increase of \$6 billion funding for the school district LCFF. The additional funding is sufficient to close more than 50 percent of the gap between districts' 2014-15 funding levels and their target funding rates.

#### **Infrastructure**

##### ***An Increase of \$50 Million in One-Time Funds for School Internet Infrastructure***

The budget includes an increase of \$50 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. This builds on \$26.7 million in one-time Proposition 98 funding that was provided in the 2014 budget.

#### **Local Reserves**

##### ***Requires School Districts to Disclose and Justify Reserves***

Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the minimum reserve level applicable to the district, the amount of reserves that exceed the minimum, and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time it submits a budget to its COE.

##### ***Caps Local Reserves Some Years Under Proposition 2***

Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 4 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing the Santa Clara County Office of Education budget for the 2015-16 fiscal year.

### **CONTACTING THE SANTA CLARA COUNTY OFFICE OF EDUCATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Santa Clara County Office of Education's finances and to demonstrate the Santa Clara County Office of Education's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurie Book, Interim Director-Internal Business Services via email at [Laurie.Book@sccoe.org](mailto:Laurie.Book@sccoe.org).

## **BASIC FINANCIAL STATEMENTS**

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF NET POSITION  
June 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 112,876,403
Receivables	14,469,539
Stores inventory	295,830
Prepaid expenses	354,982
Non-depreciable capital assets (Note 4)	5,538,143
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>60,493,372</u>
Total assets	<u>194,028,269</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources - pensions (Notes 7 and 8)	<u>9,965,324</u>
<b>LIABILITIES</b>	
Accounts payable and other current liabilities	15,485,684
Unearned revenue	4,632,015
Long-term liabilities:	
Due within one year (Note 5)	4,925,000
Due after one year (Note 5)	<u>145,833,453</u>
Total liabilities	<u>170,876,152</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources - pensions (Notes 7 and 8)	<u>34,237,250</u>
<b>NET POSITION</b>	
Net investment in capital assets	57,001,515
Restricted (Note 6)	19,495,729
Unrestricted	<u>(77,617,053)</u>
Total net position	<u>\$ (1,119,809)</u>

The accompanying notes are an integral  
part of these financial statements.



SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		<u>Governmental Activities</u>
Governmental activities:					
Instruction	\$ 91,706,397	\$ 1,815,745	\$ 35,237,893	\$ 1,746	\$ (54,651,013)
Instruction-related services:					
Supervision of instruction	15,258,137	3,557,737	6,974,077	-	(4,726,323)
Instructional library, media and technology	784,592	288	81,916	-	(702,388)
School site administration	10,814,363	458,149	3,657,893	-	(6,698,321)
Pupil services:					
Home to school transportation	1,333,607	610	7,551	-	(1,325,446)
Food services	1,895,839	272,726	1,531,270	-	(91,843)
All other pupil services	24,894,478	442,350	11,709,339	-	(12,742,789)
General administration:					
Data processing	8,740,926	-	22,190	-	(8,718,736)
All other general administration	21,112,370	1,000,019	5,031,499	-	(15,080,852)
Plant services	6,704,961	229,510	2,648,272	-	(3,827,179)
Ancillary services	3,696,758	3,466,450	903,036	-	672,728
Community services	575,000	-	-	-	(575,000)
Enterprise activities	(6,120)	646	166	-	6,932
Interest on long-term debt	463,288	-	-	-	(463,288)
Other outgo	19,913,915	794,987	12,734,717	-	(6,384,211)
	<u>\$ 207,888,511</u>	<u>\$ 12,039,217</u>	<u>\$ 80,539,819</u>	<u>\$ 1,746</u>	<u>\$ (115,307,729)</u>
Total governmental activities					
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					102,298,354
Taxes levied for specific purposes					1,200,653
Federal and state aid not restricted to specific purposes					4,439,147
Interest and investment earnings					508,320
Interagency revenues					4,061,162
Miscellaneous					3,397,123
Total general revenues					115,904,759
Change in net position					597,030
Net position, July 1, 2014					134,881,018
Cumulative effect of GASB 68 implementation					(136,597,857)
Net position, July 1, 2014, as restated					(1,716,839)
Net position, June 30, 2015					\$ (1,119,809)

The accompanying notes are an integral  
part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2015

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	All Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments:					
Cash in County Treasury	\$ 81,320,312	\$ 323,581	\$ 2,230,341	\$ 607,968	\$ 84,482,202
Cash in revolving funds	25,000	-	-	-	25,000
Cash with Fiscal Agent	-	-	-	1,171,309	1,171,309
Receivables	8,537,035	5,025,511	568,275	299,283	14,430,104
Due from other funds	-	320,768	294,861	148,158	763,787
Stores inventory	<u>295,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,830</u>
Total assets	<u>\$ 90,178,177</u>	<u>\$ 5,669,860</u>	<u>\$ 3,093,477</u>	<u>\$ 2,226,718</u>	<u>\$ 101,168,232</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 9,078,081	\$ 5,581,273	\$ 352,840	\$ 92,897	\$ 15,105,091
Due to other funds	4,406,193	-	21,435	516,991	4,944,619
Unearned revenue	<u>2,194,737</u>	<u>-</u>	<u>2,437,278</u>	<u>-</u>	<u>4,632,015</u>
Total liabilities	<u>15,679,011</u>	<u>5,581,273</u>	<u>2,811,553</u>	<u>609,888</u>	<u>24,681,725</u>
Fund balances:					
Nonspendable	320,830	-	-	-	320,830
Restricted	10,871,244	88,587	281,924	1,616,830	12,858,585
Assigned	49,125,557	-	-	-	49,125,557
Unassigned	<u>14,181,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,181,535</u>
Total fund balances	<u>74,499,166</u>	<u>88,587</u>	<u>281,924</u>	<u>1,616,830</u>	<u>76,486,507</u>
Total liabilities and fund balances	<u>\$ 90,178,177</u>	<u>\$ 5,669,860</u>	<u>\$ 3,093,477</u>	<u>\$ 2,226,718</u>	<u>\$ 101,168,232</u>

The accompanying notes are an integral part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2015

Total fund balances - Governmental Funds \$ 76,486,507

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$96,521,119 and the accumulated depreciation is \$30,489,604 (Note 4). 66,031,515

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2015 consisted of (Note 5):

Certificates of Participation	\$ (9,030,000)	
Net pension liability (Notes 7 and 8)	(111,753,000)	
Compensated absences	<u>(5,109,805)</u>	(125,892,805)

In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 7 and 8).

Deferred outflows of resources relating to pensions	\$ 9,965,324	
Deferred inflows of resources relating to pensions	<u>(34,237,250)</u>	(24,271,926)

In government funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statements, it is recognized in the period that it is incurred. (110,244)

Internal service funds are used to conduct certain activities for which costs are charged to other funds. Assets and liabilities are reported with governmental activities in the statement of net position. 6,637,144

Total net position - governmental activities \$ (1,119,809)

The accompanying notes are an integral part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2015

	County School Service <u>Fund</u>	Special Education Pass-Through <u>Fund</u>	Child Development <u>Fund</u>	All Non-Major <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:					
Local Control Funding					
Formula (LCFF):					
State apportionment	\$ 5,251,784	\$ -	\$ -	\$ -	\$ 5,251,784
Local sources	<u>102,301,042</u>	<u>76,311,750</u>	<u>-</u>	<u>-</u>	<u>178,612,792</u>
Total LCFF	<u>107,552,826</u>	<u>76,311,750</u>	<u>-</u>	<u>-</u>	<u>183,864,576</u>
Federal sources	39,221,577	20,493,218	1,307,267	1,265,493	62,287,555
Other state sources	20,212,997	(37,551,761)	3,055,247	73,123	(14,210,394)
Other local sources	<u>34,689,459</u>	<u>1,331,141</u>	<u>290,044</u>	<u>287,363</u>	<u>36,598,007</u>
Total revenues	<u>201,676,859</u>	<u>60,584,348</u>	<u>4,652,558</u>	<u>1,625,979</u>	<u>268,539,744</u>
Expenditures:					
Current:					
Certificated salaries	44,734,360	-	1,738,250	-	46,472,610
Classified salaries	53,107,816	-	1,859,955	549,376	55,517,147
Employee benefits	44,041,501	-	1,616,501	294,365	45,952,367
Books and supplies	4,454,410	-	97,889	719,248	5,271,547
Contract services and operating expenditures	33,024,495	-	501,138	(6,141)	33,519,492
Other outgo	19,913,916	36,360	-	-	19,950,276
Transfer of pass-through revenues	-	60,468,876	-	-	60,468,876
Capital outlay	1,373,525	-	-	82,805	1,456,330
Debt service:					
Principal retirement	700,000	-	-	-	700,000
Interest	<u>470,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>470,725</u>
Total expenditures	<u>201,820,748</u>	<u>60,505,236</u>	<u>5,813,733</u>	<u>1,639,653</u>	<u>269,779,370</u>
Deficiency (excess) of revenues over (under) expenditures	<u>(143,889)</u>	<u>79,112</u>	<u>(1,161,175)</u>	<u>(13,674)</u>	<u>(1,239,626)</u>
Other financing sources (uses):					
Transfers in	574,950	-	1,613,625	181,288	2,369,863
Transfers out	<u>(1,794,913)</u>	<u>-</u>	<u>(461,365)</u>	<u>(113,585)</u>	<u>(2,369,863)</u>
Total other financing sources (uses)	<u>(1,219,963)</u>	<u>-</u>	<u>1,152,260</u>	<u>67,703</u>	<u>-</u>
Net change in fund balances	(1,363,852)	79,112	(8,915)	54,029	(1,239,626)
Fund balances, July 1, 2014	<u>75,863,018</u>	<u>9,475</u>	<u>290,839</u>	<u>1,562,801</u>	<u>77,726,133</u>
Fund balances, June 30, 2015	<u>\$ 74,499,166</u>	<u>\$ 88,587</u>	<u>\$ 281,924</u>	<u>\$ 1,616,830</u>	<u>\$ 76,486,507</u>

The accompanying notes are an integral  
part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2015

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Net change in fund balances - Total Governmental Funds	\$ (1,239,626)
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	1,914,911
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(3,538,922)
Proceeds from disposal of capital assets are reported as revenue in the governmental funds and as gain or loss in the statement of activities (Note 4).	(69,366)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 5).	700,000
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5).	296,377
Unmatured interest on long-term liabilities is not recorded in the governmental funds until it becomes due, but increases the liabilities in the statement of net position.	(2,038)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was (Notes 7 and 8):	582,406
Net revenues of the Self-Insurance Fund are reported with governmental activities in the statement of activities.	<u>1,953,288</u>
Change in net position of governmental activities	<u><u>\$ 597,030</u></u>

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The accompanying notes are an integral part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF NET POSITION -  
INTERNAL SERVICE FUND  
SELF-INSURANCE FUND  
June 30, 2015

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**ASSETS**

Current:

Cash in County Treasury	\$ 27,197,892
Receivables	39,435
Due from other funds	4,181,700
Prepaid expenditures	<u>354,982</u>

Total assets 31,774,009

**LIABILITIES**

Current:

Claims liabilities (Notes 5 and 9)	4,200,000
Accounts payable	270,349
Due to other funds	<u>868</u>

Total current liabilities 4,471,217

Long-term:

Claims liabilities (Notes 5 and 9)	8,022,000
Other postemployment benefits (Notes 5 and 10)	<u>12,643,648</u>

Total long-term liabilities 20,665,648

Total liabilities 25,136,865

**NET POSITION**

Restricted \$ 6,637,144

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The accompanying notes are an integral  
part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF CHANGE IN NET POSITION -  
INTERNAL SERVICE FUND  
SELF-INSURANCE FUND  
For the Year Ended June 30, 2015

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Operating revenues:	
Self-insurance premiums	\$ 13,364,186
Other local revenue	<u>295,950</u>
Operating income	<u>13,660,136</u>
Operating expenses:	
Classified salaries	233,301
Employee benefits	71,880
Books and supplies	36,529
Contract services and operating expenses	<u>11,484,919</u>
Total operating expenses	<u>11,826,629</u>
Operating income	1,833,507
Non-operating revenue:	
Interest income	<u>119,781</u>
Change in net position	1,953,288
Net position, July 1, 2014	<u>4,683,856</u>
Net position, June 30, 2015	<u><u>\$ 6,637,144</u></u>

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The accompanying notes are an integral  
part of these financial statements.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF CASH FLOWS -  
INTERNAL SERVICE FUND  
SELF-INSURANCE FUND  
For the Year Ended June 30, 2015

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Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 10,595,614
Cash paid for services	<u>(8,631,101)</u>
Net cash provided by operating activities	1,964,513
Cash flows provided by investing activities:	
Interest income received	<u>119,781</u>
Increase in Cash in County Treasury	2,084,294
Cash in County Treasury, July 1, 2014	<u>25,113,598</u>
Cash in County Treasury, June 30, 2015	<u><u>\$ 27,197,892</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 1,833,507</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in:	
Receivables	(14,272)
Due from other funds	(3,918,648)
Prepaid expenditures	(137,982)
Increase (decrease) in:	
Claims liabilities	834,000
Other postemployment benefits	3,462,600
Accounts payable	34,398
Due to other funds	<u>(129,090)</u>
Total adjustments	<u>131,006</u>
Net cash provided by operating activities	<u><u>\$ 1,964,513</u></u>

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The accompanying notes are an integral part of these financial statements.



SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
June 30, 2015

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	Agency Fund
<b>ASSETS</b>	
Cash on hand and in banks (Note 2)	<u>\$ 188,032,121</u>
<b>LIABILITIES</b>	
Salaries payable	\$ 101,041,281
Warrants payable	26,329,515
Due to other agencies	<u>60,661,325</u>
Total liabilities	<u>\$ 188,032,121</u>

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The accompanying notes are an integral  
part of these financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Santa Clara County Office of Education (the "County Office") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the County Office conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

Reporting Entity: The Board of Education is the level of government which has governance responsibilities over all activities related to public school education as conducted by the County Office. The County Office is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members and the Superintendent have approval authority, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the County Office's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the County Office's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Assets and Liabilities at the fund financial statement level.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the County Office's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the County Office's general revenues.

Allocation of indirect expenses: The County Office reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting: The accounts of the County Office are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. County Office resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A - Major Funds**

County School Service Fund:

The County School Service Fund is the general operating fund of the County Office and accounts for all revenues and expenditures of the County Office not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from the County School Service Fund.

Special Education Pass-Through Fund:

The Special Education Pass-Through Fund is a special revenue fund that is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special education programs operated by various school districts within the county and the County Office.

Child Development Fund:

The Child Development Fund is a special revenue fund that is used to account for the proceeds of specific revenues that are legally restricted to expenditures for child development programs within the jurisdiction of the County Office.

**B - Other Funds**

The Cafeteria Fund is a special revenue fund that is used to account for the proceeds of specific revenues that are legally restricted for the operation of food service programs within the jurisdiction of the County Office.

The County School Facilities Fund is used to account for resources used for the acquisition or construction of capital facilities and equipment by the County Office.

The Debt Service Fund is used to account for the accumulation of resources for payment of principal and interest on the County Office's Certificates of Participation (COPs).

The Self-Insurance Fund is an Internal Service Fund used to account for services for workers compensation, property and liability, dental, vision and medical benefits rendered on a cost-reimbursement basis within the County Office.

The Warrant Pass-Through Fund is an agency fund used to account for the activities for which the County Office has an agency relationship with the activity of the fund. This fund is a clearing account for warrants, payroll, taxes withheld and charter school activity for educational entities within the County.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied

Accrual: Governmental activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting: By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The County Office's governing board satisfied these requirements.

Receivables: Receivables consist of amounts due from the federal, state and local government, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the County Office's grants and contracts. The County Office has determined that no allowance for doubtful accounts was needed as of June 30, 2015.

Stores Inventory: Stores inventory in the County School Service Fund is valued at latest invoice cost and consists primarily of consumable supplies. No inventory records are maintained throughout the year. A physical inventory is performed on June 30 and the inventory and expense account balances are adjusted to reflect the physical count at year end.

Capital Assets: Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The County Office has recognized a deferred outflow of resources related to the payments made subsequent to the measurement date for the pensions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The County Office has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following is a summary of pension amounts in aggregate:

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 3,848,492</u>	<u>\$ 6,116,832</u>	<u>\$ 9,965,324</u>
Deferred inflows of resources	<u>\$ 13,612,000</u>	<u>\$ 20,625,250</u>	<u>\$ 34,237,250</u>
Net pension liability	<u>\$ 55,278,000</u>	<u>\$ 56,475,000</u>	<u>\$111,753,000</u>
Pension expense	<u>\$ 7,445,924</u>	<u>\$ 4,602,469</u>	<u>\$ 12,048,393</u>

Interfund Activity: Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or governmental proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Compensated Absences: Compensated absences benefits totaling \$5,109,805 are recorded as a liability of the County Office. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the County Office since cash payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

Unearned Revenue: Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for unspent categorical program revenues represents the portion of net position restricted to specific program expenditures. The restriction for special revenues represents the portion of net position restricted for special purposes. The restriction for capital projects represents the portion of net position restricted for capital projects. The restriction for debt service represents the portion of net position available for the retirement of debt. The restriction for self-insurance represents the portion of net position restricted for payment of the contract services related to claims. It is the County Office's policy to use restricted net position first when allowable expenditures are incurred.
3. Unrestricted Net Position – All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

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(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance Classifications:** Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

**A - Nonspendable Fund Balance:**

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, stores inventory and prepaid expenditures.

**B - Restricted Fund Balance:**

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary fund statements.

**C - Committed Fund Balance:**

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2015, the County Office had no committed fund balances.

**D - Assigned Fund Balance:**

The assigned fund balance classification reflects amounts that the County Office's Board of Education has approved to be used for specific purposes, based on the County Office's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however at June 30, 2015, no such designation had occurred.

**E - Unassigned Fund Balance:**

In the County School Service Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the County School Service Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the County School Service Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Balance Policy: The County Office has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require county offices to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education.

Property Taxes: Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Santa Clara bills and collects taxes for the County Office. Tax revenues are recognized by the County Office when due.

Encumbrances: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

New Accounting Pronouncements: In June 2012 the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the County Office's fiscal year ending June 30, 2015. Based on the implementation of GASB Statement No. 68, the County Office's July 1, 2014 governmental activities net position was restated by \$136,597,857 because of the recognition of the beginning of year net pension liability and deferred outflows of resources.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In November 2013 the GASB issued GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for the County Office's fiscal year ending June 30, 2015. Based on the implementation of GASB Statement No. 71, the County Office established a deferred outflow category to report the payments made subsequent to the measurement date of the pensions as well as deferred inflow category to report the net differences of the pensions in the Statement of Net Position.

In February 2015, the GASB issued its final standard on accounting and financial reporting issues related to fair value measurements, applicable primarily to investments made by state and local governments. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under GASB Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. Before the issuance of GASB Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. This statement is effective for the County Office's fiscal year ending June 30, 2016. Management has not determined what impact this statement will have on its financial statements.

In June 2015, the GASB issued GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of Statements No. 67 and No. 68, completes the suite of pension standards. GASB Statement No. 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by GASB Statements No. 67 and No. 68). The requirements in GASB Statement No. 73 for reporting pensions generally are the same as in GASB Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions in GASB Statement No. 73 are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management has not determined what impact this statement will have on its financial statements.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In June 2015, the GASB issued GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. GASB Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The GASB Statement follows the framework for financial reporting of defined benefit OPEB plans in GASB Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. GASB Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. This statement is effective for the County Office's fiscal year ending June 30, 2017. Management has not determined what impact this statement will have on its financial statements.

In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. GASB Statement No. 75 carries forward from GASB Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances (called special funding situations) GASB Statement No. 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. The provisions in GASB Statement No. 75 are effective for fiscal years ending June 30, 2018. Earlier application is encouraged. Management has not determined what impact this statement will have on its financial statements, however it is expected to be significant.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In June 2015, the GASB issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. That will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The Statement also is intended to improve implementation guidance by elevating its authoritative status to a level that requires it be exposed for a period of broad public comment prior to issuance, as is done for other GASB pronouncements. In connection with GASB Statement No. 76, the GASB also recently cleared Implementation Guide No. 2015-1, which incorporates changes resulting from feedback received during the public exposure of all of implementation guidance previously issued. This statement is effective for the County Office's fiscal year ending June 30, 2016. Management has not determined what impact this statement will have on its financial statements.

**NOTE 2 - CASH AND INVESTMENTS**

Cash at June 30, 2015 consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:		
Cash in County Treasury	\$ 111,680,094	\$ -
Deposits:		
Revolving cash fund	25,000	-
Cash on hand and in banks	-	188,032,121
Cash with Fiscal Agent	<u>1,171,309</u>	<u>-</u>
Total	<u>\$ 112,876,403</u>	<u>\$ 188,032,121</u>

Pooled Funds: In accordance with Education Code Section 41001, the County Office maintains substantially all of its cash in the Santa Clara County Treasury. The County pools these funds with those of school districts and other agencies in the County and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the County Office's deposits are maintained in a recognized pooled investment fund under the care of a third party and the County Office's share of the pool does not consist of specific, identifiable investment securities owned by the County Office, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

In accordance with applicable state laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2015, the Santa Clara County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk: The County Office limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2015, the carrying amount of the County Office's accounts was \$188,057,121 and the bank balances were \$92,694,359, of which \$92,444,359 was insured by the FDIC.

Cash with Fiscal Agent: Cash with Fiscal Agent totaling \$1,171,309 represents amounts held in the County Office's name by a third party custodian at June 30, 2015 as a reserve fund for future repayment of the COPs.

Interest Rate Risk: The County Office does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2015, the County Office had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk: The County Office does not place limits on the amount it may invest in any one issuer. At June 30, 2015, the County Office had no concentration of credit risk.

**NOTE 3 - INTERFUND TRANSACTIONS**

Interfund Activity: Transfers between funds of the County Office are recorded as interfund transfers. The unpaid balances at year-end, as a result of such transactions, are shown as due to and due from individual funds.

Interfund Receivables/Payables: Individual fund interfund receivable and payable balances at June 30, 2015 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<u>Governmental Activities</u>		
Major Funds:		
County School Service	\$ -	\$ 4,406,193
Special Education Pass-Through	320,768	-
Child Development	294,861	21,435
Non-Major Fund:		
Cafeteria	148,158	516,991
Proprietary Fund:		
Self-Insurance Fund	<u>4,181,700</u>	<u>868</u>
Totals	<u>\$ 4,945,487</u>	<u>\$ 4,945,487</u>

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 3 - INTERFUND TRANSACTIONS (Continued)**

Interfund Transfers: Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2014-15 fiscal year ended were as follows:

Transfer from the County School Service Fund to the Cafeteria Fund to support food service operations.	\$ 181,288
Transfer from the County School Service Fund to the Child Development Fund to support child development operations.	1,613,625
Transfer from the Child Development Fund to the County School Service Fund for indirect support.	461,365
Transfer from the Cafeteria Fund to the County School Service Fund for indirect support.	88,585
Transfer from the Cafeteria Fund to the County School Service Fund to refund purchases.	<u>25,000</u>
	<u><u>\$ 2,369,863</u></u>

**NOTE 4 - CAPITAL ASSETS**

A schedule of changes in capital assets for the year ended June 30, 2015 is shown below:

	Balance July 1, <u>2014</u>	<u>Additions</u>	<u>Transfers and Deductions</u>	Balance June 30, <u>2015</u>
Non-depreciable:				
Land	\$ 5,533,399	\$ -	\$ -	\$ 5,533,399
Work in progress	-	4,744	-	4,744
Depreciable:				
Buildings and improvements	76,242,998	1,398,160	137,888	77,503,270
Equipment	<u>13,060,120</u>	<u>512,007</u>	<u>92,421</u>	<u>13,479,706</u>
Totals, at cost	<u>94,836,517</u>	<u>1,914,911</u>	<u>230,309</u>	<u>96,521,119</u>
Less accumulated depreciation:				
Buildings and improvements	17,665,124	2,661,567	82,765	20,243,926
Equipment	<u>9,446,501</u>	<u>877,355</u>	<u>78,178</u>	<u>10,245,678</u>
Total accumulated depreciation	<u>27,111,625</u>	<u>3,538,922</u>	<u>160,943</u>	<u>30,489,604</u>
Capital assets, net	<u><u>\$ 67,724,892</u></u>	<u><u>\$ (1,624,011)</u></u>	<u><u>\$ 69,366</u></u>	<u><u>\$ 66,031,515</u></u>

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 4 - CAPITAL ASSETS** (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 1,681,678
Supervision of instruction	308,880
Instructional library, media and technology	34,321
School site administration	205,920
Home-to-school transportation	34,321
Food services	34,321
All other pupil services	446,160
Ancillary services	68,639
All other general administration	484,444
Plant services	102,959
Data processing	<u>137,279</u>
Total depreciation expense	<u><u>\$ 3,538,922</u></u>

**NOTE 5 - LONG-TERM LIABILITIES**

Certificates of Participation: In July 2002, the County Office issued Certificates of Participation in the amount of \$15,895,000 to refund Certificates of Participation that were originally issued in 1995. The 2002 Certificates of Participation mature through April 2025, and have interest rates from 3.00% to 5.15%.

The following is a schedule of future payments for the 2002 Certificates of Participation:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 725,000	\$ 440,975	\$ 1,165,975
2017	760,000	408,350	1,168,350
2018	790,000	373,200	1,163,200
2019	830,000	335,675	1,165,675
2020	875,000	296,250	1,171,250
2021-2025	<u>5,050,000</u>	<u>1,031,751</u>	<u>6,081,751</u>
	<u><u>\$ 9,030,000</u></u>	<u><u>\$ 2,886,201</u></u>	<u><u>\$ 11,916,201</u></u>

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2015 is shown below:

	Balance July 1, 2014 as Restated	Additions	Deductions	Balance June 30, 2015	Amounts Due Within One Year
Certificates of Participation	\$ 9,730,000	\$ -	\$ 700,000	\$ 9,030,000	\$ 725,000
Net pension liability (Notes 7 and 8)	146,049,000	-	34,296,000	111,753,000	-
Compensated absences	5,406,182	-	296,377	5,109,805	-
Claims liability (Note 9)	11,366,000	5,099,643	4,243,643	12,222,000	4,200,000
Other postemployment benefits liability (Note 10)	<u>9,181,048</u>	<u>4,163,039</u>	<u>700,439</u>	<u>12,643,648</u>	<u>-</u>
Totals	<u><u>\$ 181,732,230</u></u>	<u><u>\$ 9,262,682</u></u>	<u><u>\$ 40,236,459</u></u>	<u><u>\$ 150,758,453</u></u>	<u><u>\$ 4,925,000</u></u>

Payments on the Certificates of Participation were made from the County School Service Fund. Payments on the net pension liability and compensated absences are made from various County Office funds. Payments on the claims liability and other postemployment benefits liability are made from the Self-Insurance Fund.

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 6 - NET POSITION / FUND BALANCES**

The restricted net position consisted of the following at June 30, 2015:

	<u>Governmental Activities</u>
Restricted for:	
Unspent categorical program revenues	\$ 10,871,244
Special revenue funds	441,274
Capital projects funds	374,758
Debt service funds	1,171,309
Self-Insurance	<u>6,637,144</u>
	<u>\$ 19,495,729</u>

Fund balances, by category, at June 30, 2015 consisted of the following:

	County School Service <u>Fund</u>	Special Education Pass-Through <u>Fund</u>	Child Development <u>Fund</u>	All Non-Major Funds <u>Funds</u>	<u>Total</u>
<b>Nonspendable:</b>					
Revolving cash fund	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000
Stores inventory	<u>295,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,830</u>
Subtotal nonspendable	<u>320,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,830</u>
<b>Restricted:</b>					
Unspent categorical program revenues	10,871,244	-	-	-	10,871,244
Special revenue	-	88,587	281,924	70,763	441,274
Capital projects	-	-	-	374,758	374,758
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,171,309</u>	<u>1,171,309</u>
Subtotal restricted	<u>10,871,244</u>	<u>88,587</u>	<u>281,924</u>	<u>1,616,830</u>	<u>12,858,585</u>
<b>Assigned:</b>					
Excess taxes	4,457,908	-	-	-	4,457,908
Carryover of unspent funds	1,728,481	-	-	-	1,728,481
Facilities	9,198,396	-	-	-	9,198,396
Redevelopment funds	3,946,940	-	-	-	3,946,940
Technology services	7,679,209	-	-	-	7,679,209
Cafeteria profit sharing	91,077	-	-	-	91,077
Board-approved one-time funding	3,025,061	-	-	-	3,025,061
Deferred maintenance	6,422,684	-	-	-	6,422,684
Board-approved Educare (2016/17)	750,000	-	-	-	750,000
Vacation and sick leave	2,951,745	-	-	-	2,951,745
Certificated non-management salary	5,168,697	-	-	-	5,168,697
One-Time designation	2,826,727	-	-	-	2,826,727
ROP/JPA MOU (2016/17 - 2017/18)	702,632	-	-	-	702,632
Board designated legal	<u>176,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,000</u>
Subtotal assigned	<u>49,125,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,125,557</u>
<b>Unassigned:</b>					
Designated for economic uncertainty	8,059,227	-	-	-	8,059,227
Undesignated	<u>6,122,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,122,308</u>
Subtotal assigned	<u>14,181,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,181,535</u>
Total fund balances	<u>\$ 74,499,166</u>	<u>\$ 88,587</u>	<u>\$ 281,924</u>	<u>\$ 1,616,830</u>	<u>\$ 76,486,507</u>

(Continued)

## NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

### *General Information about the State Teachers' Retirement Plan*

Plan Description: Teaching-certified employees of the County Office are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

#### *CalSTRS 2% at 60*

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

#### *CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

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(Continued)



SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers’ Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

*Members* - Under CalSTRS 2% at 60, the member contribution rate was 8.15 percent of applicable member earnings for fiscal year 2014-15. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.15 percent of applicable member earnings for fiscal year 2014-15.

In general, member contributions cannot increase unless members are provided with some type of “comparable advantage” in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this “comparable advantage,” the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

*Employers* – 8.88 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

The CalSTRS employer contribution rate increases effective for fiscal year 2014-15 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2014	8.25%	0.63%	8.88%
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

(Continued)



SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

The County Office contributed \$3,848,492 to the plan for the fiscal year ended June 30, 2015.

*State* - 5.954 percent of the members’ creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

The CalSTRS state contribution rates effective for fiscal year 2014-15 and beyond are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2014	2.017%	1.437%	2.50%	5.954%
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.571%*

\* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the County Office reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County Office. The amount recognized by the County Office as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the County Office were as follows:

County Office’s proportionate share of the net pension liability	\$ 55,278,000
State’s proportionate share of the net pension liability associated with the County Office	<u>33,379,000</u>
Total	<u>\$ 88,657,000</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The County Office’s proportion of the net pension liability was based on the County Office’s share of contributions to the pension plan relative to the contributions of all participating school districts and County Offices and the State. At June 30, 2014, the County Office’s proportion was 0.095 percent, which was an increase of zero from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County Office recognized pension expense of \$7,445,924 and revenue of \$2,397,331 for support provided by the State. At June 30, 2015, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	13,612,000
Changes in proportion and differences between County Office contributions and proportionate share of contributions	-	-
Contributions made subsequent to measurement date	<u>3,848,942</u>	<u>-</u>
Total	<u>\$ 3,848,942</u>	<u>\$ 13,612,000</u>

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

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**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

\$3,848,942 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>		
2016	\$	3,403,000
2017	\$	3,403,000
2018	\$	3,403,000
2019	\$	3,403,000

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2014. The STRP net pension liability as of June 30, 2013 and the STRP net pension liability as of June 30, 2014 are based on the June 30, 2013 actuarial valuation for the first year of implementation. As a result there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. Based on the model from CalSTRS consulting actuary’s investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12	6.20
Real Estate	15	4.35
Inflation Sensitive	5	3.20
Fixed Income	20	0.20
Cash / Liquidity	1	0.00

\* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County Office’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the County Office’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
County Office’s proportionate share of the net pension liability	<u>\$ 86,164,000</u>	<u>\$ 55,278,000</u>	<u>\$ 29,525,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

(Continued)

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B**

*General Information about the Public Employer’s Retirement Fund B*

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer’s Retirement Fund B (PERF B) is administered by the California Public Employees’ Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college County Offices, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2014.pdf>.

Benefits Provided: The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2015 were as follows:

*Members* - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2014-15.

*Employers* - The employer contribution rate was 11.771 percent of applicable member earnings.

The County Office contributed \$6,116,832 to the plan for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the County Office reported a liability of \$56,475,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The County Office’s proportion of the net pension liability was based on the County Office’s share of contributions to the pension plan relative to the contributions of all participating school districts and County Offices. At June 30, 2014, the County Office’s proportion was 0.508 percent, which was an increase of 0.010 percent from its proportion measured as of June 30, 2013.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
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 June 30, 2015

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

For the year ended June 30, 2015, the County Office recognized pension expense of \$4,602,469. At June 30, 2015, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	19,405,000
Changes in proportion and differences between County Office contributions and proportionate share of contributions	-	1,220,250
Contributions made subsequent to measurement date	<u>6,116,832</u>	<u>-</u>
Total	<u>\$ 6,116,832</u>	<u>\$ 20,625,250</u>

\$6,116,832 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2016	\$ 5,258,000
2017	\$ 5,258,000
2018	\$ 5,258,000
2019	\$ 4,851,250

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

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**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)**

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	47%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	12	6.83
Real Estate	11	4.50
Infrastructure & Forestland	3	4.50
Liquidity	2	(0.55)

\* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.50 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in the actuarial valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Plan and to the County Office.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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(Continued)



SANTA CLARA COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

Sensitivity of the County Office’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the County Office’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
County Office’s proportionate share of the net pension liability	<u>\$ 98,793,000</u>	<u>\$ 56,475,000</u>	<u>\$ 20,589,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**NOTE 9 – RISK MANAGEMENT**

Property and Liability: The County Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2015, the County Office participated in the South Bay Area Schools Insurance Authority (SBASIA) public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers’ Compensation: For fiscal year 2014-15, the County Office was self-insured up to \$350,000 for workers compensation, with excess coverage provided by a policy through Star Insurance Company.

Employee Dental and Vision Benefits: The County Office is self-insured for dental and vision benefits for employees. The County Office uses Delta Dental to process the dental benefit claims, and MES to process the vision claims.

Coverages for property and liability and workers' compensation are as follows:

	<u>Type of coverage</u>	<u>Self-insured Retention</u>	<u>Limits</u>
<b>Workers' Compensation:</b>			
Santa Clara County Office of Education	Workers' Compensation	N/A	\$ 350,000
Star Insurance Company	Workers' Compensation	\$ 350,000	\$ 100,000,000
<b>Property and Liability:</b>			
SBASIA	Property	\$ 10,000	\$ 500,000
SBASIA	Liability	\$ 5,000	\$ 300,000
<b>Excess Property and Liability Program:</b>			
Genesis Insurance Company	Excess Liability	\$ 300,000	\$ 1,000,000
CSAC Excess Insurance Authority	General Liability	\$ 1,000,000	\$ 24,000,000
Public Entity Property Insurance Program	Excess Property	\$ 500,000	\$ 1,000,000,000

(Continued)



SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 – RISK MANAGEMENT (Continued)**

Claims Liability: The County Office records an estimated liability for workers' compensation claims against the County Office. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities: The County Office establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the County Office's workers' compensation from July 1, 2013 to June 30, 2015:

Liability balance, June 30, 2013	\$ 10,679,000
Claims and changes in estimates	3,867,236
Claim payments	<u>(3,180,236)</u>
Liability balance, June 30, 2014	11,366,000
Claims and changes in estimates	5,099,643
Claim payments	<u>(4,243,643)</u>
Liability balance, June 30, 2015	<u><u>\$ 12,222,000</u></u>

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Notes 7 and 8, Santa Clara County Office of Education administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides employee health benefits coverage for eligible retirees and their dependents as a lifetime benefit. The plan does not issue separate financial statements. Eligibility requirements are as follows:

- SEIU employees who retire on or after age 50 with at least 10 years of service.
- ACE/CTA employees and psychologists who retire on or after age 55 with at least 10 years of service.
- Management employees hired on or before November 1, 2008, who retire on or after age 55 with at least one year of service.
- Management employees and Superintendent hired after November 1, 2008 who retire on or after age 55 with at least ten years of service.

The same medical coverage as provided to active employees is provided to eligible retired employees. The percentage of the monthly premium paid by the County varies. Retirees pay all amounts in excess of:

- For SEIU retirees, 50%.
- For ACE/CTA/psychologists, the percentage is 50% after 10 years of employment, 75% after 15 years, and 100% after 20 years.
- For management and Superintendent, 3.3% for each year of service (100% after 30 years).

Benefits cease at age 65.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
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 June 30, 2015

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

The County Office's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the County Office's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County Office's net OPEB obligation:

Annual required contribution	\$ 4,580,036
Interest on net OPEB obligation	183,621
Adjustment to annual required contribution	<u>(600,618)</u>
Annual OPEB cost (expense)	4,163,039
Contributions made	<u>(700,439)</u>
Increase in net OPEB obligation	3,462,600
Net OPEB obligation - beginning of year	<u>9,181,048</u>
Net OPEB obligation - end of year	<u>\$ 12,643,648</u>

The County Office's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015 and preceding two years were as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
June 30, 2013	\$ 2,240,313	52%	\$ 7,818,154
June 30, 2014	\$ 2,362,313	42%	\$ 9,181,048
June 30, 2015	\$ 4,163,039	17%	\$ 12,643,648

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$28,144,372. The covered payroll (annual payroll of active employees covered by the Plan) was \$102,223,059, and the ratio of the UAAL to the covered payroll was 27.5 percent. The OPEB plan is currently operated as a pay-as-you-go plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an investment rate (net of administrative expenses) of 2.0 percent initially, increasing to 4.0 , which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 6.0 percent initially, increasing to 10.00 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 is 30 years.

**NOTE 11 - JOINT POWERS AGREEMENTS**

The County Office is a member of South Bay Area Schools Insurance Authority (SBASIA). SBASIA operates and maintains common risk management and insurance for liability and property damage protection. The JPA agreement for SBASIA provides that SBASIA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 and \$1,000,000 for each insured event for property and liability, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The following is a summary of financial information for SBASIA as of June 30, 2015:

Total assets	\$	5,653,861
Total liabilities	\$	3,071,170
Net position	\$	2,582,691
Total revenues	\$	3,466,746
Total expenditures	\$	3,628,756
Change in net position	\$	(162,010)

The relationship between Santa Clara County Office of Education and the Joint Powers Authority is such that the JPA is not a component unit of the County Office for financial reporting purposes.

**NOTE 12 - CONTINGENCIES**

The County Office is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the County Office.

Also, the County Office has received federal and state funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**REQUIRED SUPPLEMENTARY INFORMATION**

SANTA CLARA COUNTY OFFICE OF EDUCATION  
COUNTY SCHOOL SERVICE FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2015

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Local Control Funding Formula:				
State apportionment	\$ 5,265,927	\$ 5,251,785	\$ 5,251,784	\$ (1)
Local sources	<u>93,812,385</u>	<u>102,301,042</u>	<u>102,301,042</u>	<u>-</u>
Total LCFF	<u>99,078,312</u>	<u>107,552,827</u>	<u>107,552,826</u>	<u>(1)</u>
Federal sources	42,671,303	46,282,599	39,221,577	(7,061,022)
Other state sources	18,490,012	17,917,063	20,212,997	2,295,934
Other local sources	<u>33,469,216</u>	<u>36,237,469</u>	<u>34,689,459</u>	<u>(1,548,010)</u>
Total revenues	<u>193,708,843</u>	<u>207,989,958</u>	<u>201,676,859</u>	<u>(6,313,099)</u>
<b>Expenditures:</b>				
Current:				
Certificated salaries	44,253,286	46,619,482	44,734,360	1,885,122
Classified salaries	52,233,666	54,853,351	53,107,816	1,745,535
Employee benefits	39,311,230	39,510,415	44,041,501	(4,531,086)
Books and supplies	4,630,200	7,350,409	4,454,410	2,895,999
Contract services and operating expenditures	36,499,698	47,608,861	33,024,495	14,584,366
Other outgo	4,371,979	19,974,492	19,913,916	60,576
Capital outlay	4,876,755	6,824,155	1,373,525	5,450,630
Debt service:				
Principal retirement	700,000	700,000	700,000	-
Interest	<u>470,725</u>	<u>470,725</u>	<u>470,725</u>	<u>-</u>
Total expenditures	<u>187,347,539</u>	<u>223,911,890</u>	<u>201,820,748</u>	<u>22,091,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,361,304</u>	<u>(15,921,932)</u>	<u>(143,889)</u>	<u>15,778,043</u>
<b>Other financing sources (uses):</b>				
Transfers in	598,395	1,284,722	574,950	(709,772)
Transfers out	<u>(1,666,434)</u>	<u>(1,785,699)</u>	<u>(1,794,913)</u>	<u>(9,214)</u>
Total other financing sources (uses)	<u>(1,068,039)</u>	<u>(500,977)</u>	<u>(1,219,963)</u>	<u>(718,986)</u>
Net change in fund balance	5,293,265	(16,422,909)	(1,363,852)	15,059,057
Fund balance, July 1, 2014	<u>75,863,018</u>	<u>75,863,018</u>	<u>75,863,018</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ 81,156,283</u>	<u>\$ 59,440,109</u>	<u>\$ 74,499,166</u>	<u>\$ 15,059,057</u>

See note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SPECIAL EDUCATION PASS-THROUGH FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2015

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Local Control Funding Formula:				
Local Sources	\$ -	\$ 76,311,749	\$ 76,311,750	\$ 1
Federal sources	26,644,255	34,518,911	20,493,218	(14,025,693)
Other state sources	40,568,204	(37,549,588)	(37,551,761)	(2,173)
Other local sources	<u>1,283,692</u>	<u>1,331,141</u>	<u>1,331,141</u>	<u>-</u>
Total revenues	<u>68,496,151</u>	<u>74,612,213</u>	<u>60,584,348</u>	<u>(14,027,865)</u>
Expenditures:				
Current:				
Other outgo	-	36,360	36,360	-
Transfer of pass-through revenues	<u>68,496,151</u>	<u>74,585,328</u>	<u>60,468,876</u>	<u>14,116,452</u>
Total expenditures	<u>68,496,151</u>	<u>74,621,688</u>	<u>60,505,236</u>	<u>14,116,452</u>
Change in fund balance	-	(9,475)	79,112	88,587
Fund balance, July 1, 2014	<u>9,475</u>	<u>9,475</u>	<u>9,475</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ 9,475</u>	<u>\$ -</u>	<u>\$ 88,587</u>	<u>\$ 88,587</u>

See note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
CHILD DEVELOPMENT FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2015

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Federal sources	1,464,010	1,406,089	1,307,267	(98,822)
Other state sources	3,007,690	4,044,321	3,055,247	(989,074)
Other local sources	<u>325,817</u>	<u>370,335</u>	<u>290,044</u>	<u>(80,291)</u>
Total revenues	<u>4,797,517</u>	<u>5,820,745</u>	<u>4,652,558</u>	<u>(1,168,187)</u>
Expenditures:				
Current:				
Certificated salaries	1,647,021	1,746,381	1,738,250	8,131
Classified salaries	1,883,938	1,905,719	1,859,955	45,764
Employee benefits	1,607,851	1,627,007	1,616,501	10,506
Books and supplies	109,489	821,140	97,889	723,251
Contract services and operating expenditures	<u>905,259</u>	<u>1,047,081</u>	<u>501,138</u>	<u>545,943</u>
Total expenditures	<u>6,153,558</u>	<u>7,147,328</u>	<u>5,813,733</u>	<u>1,333,595</u>
Deficiency of revenues under expenditures	<u>(1,356,041)</u>	<u>(1,326,583)</u>	<u>(1,161,175)</u>	<u>165,408</u>
Other financing sources (uses):				
Transfers in	1,569,572	1,613,626	1,613,625	(1)
Transfers out	<u>(473,794)</u>	<u>(547,306)</u>	<u>(461,365)</u>	<u>85,941</u>
Total other financing sources (uses)	<u>1,095,778</u>	<u>1,066,320</u>	<u>1,152,260</u>	<u>85,940</u>
Net change in fund balance	(260,263)	(260,263)	(8,915)	251,348
Fund balance, July 1, 2014	<u>290,839</u>	<u>290,839</u>	<u>290,839</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ 30,576</u>	<u>\$ 30,576</u>	<u>\$ 281,924</u>	<u>\$ 251,348</u>

See note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
For the Year Ended June 30, 2015

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Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	<u>Schedule of Funding Progress</u>			<u>Funded Ratio</u>	<u>Covered Payroll</u>	UAAL as a Percentage of <u>Covered Payroll</u>
		Actuarial Accrued Liability <u>(AAL)</u>	Unfunded Actuarial Accrued Liability <u>(UAAL)</u>				
July 1, 2008	\$ -	\$27.3 million	\$27.3 million	0%	\$101.1 million	20.3%	
July 1, 2010	\$ -	\$20.5 million	\$20.5 million	0%	\$96.9 million	28.1%	
July 1, 2012	\$ -	\$17.9 million	\$17.9 million	0%	\$98.6 million	18.4%	
July 1, 2014	\$ -	\$28.1 million	\$28.1 million	0%	\$102.2 million	27.5%	

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See note to required supplementary information.



SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
For the Year Ended June 30, 2015

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State Teachers' Retirement Plan  
Last 10 Fiscal Years

	<u>2015</u>
County Office's proportion of the net pension liability	0.095%
County Office's proportionate share of the net pension liability	\$ 55,278,000
County Office's proportionate share of the net pension liability associated with the County Office	<u>33,379,000</u>
Total pension liability	<u>\$ 88,657,000</u>
County Office's covered-employee payroll	42,132,000
County Office's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.2%
Plan fiduciary net position as a percentage of the total pension liability	77.52%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
For the Year Ended June 30, 2015

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>
County Office's proportion of the net pension liability	0.508%
County Office's proportionate share of the net pension liability	\$ 56,475,000
County Office's covered-employee payroll	\$ 52,222,000
County Office's proportionate share of the net pension liability as a percentage of its covered-employee payroll	108.144%
Plan fiduciary net position as a percentage of the total pension liability	83.38%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

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See note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S CONTRIBUTIONS  
For the Year Ended June 30, 2015

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State Teachers' Retirement Plan  
Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 3,848,492
Contributions in relation to the contractually required contribution	<u>3,848,492</u>
Contribution deficiency (excess)	<u>\$ -</u>
County Office's covered-employee payroll	\$ 43,339,000
Contributions as a percentage of covered-employee payroll	8.88%

All years prior to 2015 are not available.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S CONTRIBUTIONS  
For the Year Ended June 30, 2015

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 6,116,832
Contributions in relation to the contractually required contribution	<u>6,116,832</u>
Contribution deficiency (excess)	<u>\$ -</u>
County Office's covered-employee payroll	\$ 51,965,000
Contributions as a percentage of covered-employee payroll	11.77%

All years prior to 2015 are not available.

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See note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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**NOTE 1 - PURPOSE OF SCHEDULES**

A - Budgetary Comparison Schedule

The County Office employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the County School Service Fund is presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Excess of expenditures over appropriations for the year ended June 30, 2015 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
County School Services Fund:	
Employee benefits	\$ 4,531,086

B - Schedule of Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

C - Schedule of the County Office's Proportionate Share of the Net Pension Liability

The Schedule of the County Office's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the County Office's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Schedule of the County Office's Contributions

The Schedule of the County Office's Contributions is presented to illustrate the County Office's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

E - Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of Assumptions

There are no changes in assumptions reported in the Required Supplementary Information.

**SUPPLEMENTARY INFORMATION**

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 COMBINING BALANCE SHEET  
 ALL NON-MAJOR FUNDS  
 June 30, 2015

	<u>Cafeteria Fund</u>	<u>County School Facilities Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash in County Treasury	\$ 233,726	\$ 374,242	\$ -	\$ 607,968
Cash with Fiscal Agent	-	-	1,171,309	1,171,309
Receivables	298,767	516	-	299,283
Due from other funds	<u>148,158</u>	<u>-</u>	<u>-</u>	<u>148,158</u>
Total assets	<u>\$ 680,651</u>	<u>\$ 374,758</u>	<u>\$ 1,171,309</u>	<u>\$ 2,226,718</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 92,897	\$ -	\$ -	\$ 92,897
Due to other funds	516,991	-	-	516,991
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>609,888</u>	<u>-</u>	<u>-</u>	<u>609,888</u>
Fund balances - restricted	<u>70,763</u>	<u>374,758</u>	<u>1,171,309</u>	<u>1,616,830</u>
Total liabilities and fund balances	<u>\$ 680,651</u>	<u>\$ 374,758</u>	<u>\$ 1,171,309</u>	<u>\$ 2,226,718</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES  
 ALL NON-MAJOR FUNDS  
 For the Year Ended June 30, 2015

	<u>Cafeteria Fund</u>	<u>County School Facilities Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Revenues:				
Federal sources	\$ 1,265,493	\$ -	\$ -	\$ 1,265,493
Other state sources	73,123	-	-	73,123
Other local sources	<u>285,570</u>	<u>1,746</u>	<u>47</u>	<u>287,363</u>
Total revenues	<u>1,624,186</u>	<u>1,746</u>	<u>47</u>	<u>1,625,979</u>
Expenditures:				
Current:				
Certificated salaries	-	-	-	-
Classified salaries	549,376	-	-	549,376
Employee benefits	294,365	-	-	294,365
Books and supplies	719,248	-	-	719,248
Contract services and operating expenditures	(6,141)	-	-	(6,141)
Capital outlay	<u>73,592</u>	<u>9,213</u>	<u>-</u>	<u>82,805</u>
Total expenditures	<u>1,630,440</u>	<u>9,213</u>	<u>-</u>	<u>1,639,653</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(6,254)</u>	<u>(7,467)</u>	<u>47</u>	<u>(13,674)</u>
Other financing sources (uses):				
Transfers in	181,288	-	-	181,288
Transfers out	<u>(113,585)</u>	<u>-</u>	<u>-</u>	<u>(113,585)</u>
Total other financing sources (uses)	<u>67,703</u>	<u>-</u>	<u>-</u>	<u>67,703</u>
Net change in fund balances	61,449	(7,467)	47	54,029
Fund balances, July 1, 2014	<u>9,314</u>	<u>382,225</u>	<u>1,171,262</u>	<u>1,562,801</u>
Fund balances, June 30, 2015	<u>\$ 70,763</u>	<u>\$ 374,758</u>	<u>\$ 1,171,309</u>	<u>\$ 1,616,830</u>



SANTA CLARA COUNTY OFFICE OF EDUCATION  
ORGANIZATION  
June 30, 2015

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Santa Clara County Office of Education was organized in 1852 under the laws of the State of California. The County Office of Education operates under a locally-elected seven member Board form of government and provides education services to grades K-12 as mandated by the State and/or Federal agencies. The County Office of Education is the administrative agency for six Special Education Local Plan Areas and operates special education classes at seventy-two school sites within the County of Santa Clara. The County Office of Education coordinates Regional Occupational Programs for five school districts and one community college district. It operates alternative schools programs that serve children in a variety of settings including Juvenile Hall, ranch programs, children's shelter and numerous community schools throughout the County. It operates via the children's service department, various preschool, childcare, developmental programs and comprehensive services for low income children and their families in Santa Clara and San Benito counties. This effort is coordinated using funds from Headstart, Early Headstart, Migrant Education, Preschool and State Preschool programs.

Santa Clara County Office of Education administers programs to 31 elementary, high school, unified, and community college districts within Santa Clara County serving an area of approximately 1,300 square miles.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Darcie Green	President	2018
Anna Song	Vice President	2016
Michael Chang	Member	2018
Joseph DiSalvo	Member	2016
Rosemary Kamei	Member	2016
Grace H. Mah	Member	2016
Claudia Rossi	Member	2018

ADMINISTRATION

Jon R. Gundy  
County Superintendent of Schools

Mary Ann Dewan, Ph.D.  
Deputy Superintendent,  
Student Services

Angela Ramsey  
Associate Superintendent,  
Educational Services

Mark Skvarna  
Interim Chief Business Officer

Philip Gordillo  
Chief Human Resources Officer

David Wu  
Chief Technology Services Officer

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE  
 For the Year Ended June 30, 2015

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	<u>Second Period Report</u>	<u>Revised Second Period Report *</u>	<u>Annual Report</u>
Elementary:			
Juvenile Halls, Homes and Camp Probation Referred	6 <u>12</u>	6 <u>12</u>	8 <u>15</u>
Total Elementary	<u>18</u>	<u>18</u>	<u>23</u>
Secondary:			
Juvenile Halls, Homes and Camp Probation Referred	319 <u>-</u>	176 <u>143</u>	181 <u>142</u>
Total Secondary	<u>319</u>	<u>319</u>	<u>323</u>
Total County Office	<u><u>337</u></u>	<u><u>337</u></u>	<u><u>346</u></u>

\* Includes County Office of Education adjustments reclassifying between Juvenile Halls and Probation Referred.

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See accompanying notes to supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
For the Year Ended June 30, 2015

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U. S Department of Education - Passed through California</u>			
<u>Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	13379	\$ 2,785,829
84.027A	Special Education: IDEA Preschool Local Entitlement	13682	258,685
84.027A	Special Education: Mental Health Services, Part B, Sec 611	14468	11,353
84.173	Special Education: IDEA Preschool Grants Part B, Sec 619	13430	102,905
84.173	Special Education: IDEA Preschool Accountability Grants, Part B, Sec 619	14688	28,707
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Section 619	13431	<u>97</u>
	Subtotal Special Education Cluster		<u>3,187,576</u>
	NCLB: Title I Programs:		
84.010	NCLB: Title I, Part A, Basic Grants Low Income and Neglected	14329	1,833,845
84.010	NCLB: Title I, Statewide System School Support	14416	475,246
84.010	NCLB: Title I, Part D, Subpart 2, Local Delinquent Programs	14357	<u>589,999</u>
	Subtotal NCLB: Title I Programs		<u>2,899,090</u>
	NCLB: Title I Migrant Education Programs:		
84.011	NCLB: Title I, Part C Migrant Education Regular Programs	14326	7,386,524
84.011	NCLB: Title I, Part C Migrant Education Summer Programs	14768	<u>297,871</u>
	Subtotal NCLB: Title I Migrant Education Programs		<u>7,684,395</u>
	Career and Technical Education Programs:		
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131	14894	26,029
84.048	Carl D. Perkins Career and Technical Education: Adult, Section 132	14893	<u>8,927</u>
	Subtotal Career and Technical Education Programs:		<u>34,956</u>
	NCLB: Title III Programs:		
84.365	NCLB: Title III, Limited English Proficiency (LEP) Student Program	14346	93,726
84.365	NCLB: Title III, Limited English Proficiency (LEP) Technical Assistance	14917	<u>48,045</u>
	Subtotal NCLB Title III Programs:		<u>141,771</u>

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2015

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U. S Department of Education - Passed through California Department of Education (Continued)</u>			
84.181	Special Education: IDEA Early Intervention, Part C	23761	\$ 787,560
84.126	Department of Rehabilitation: Workability II	10006	240,056
84.367	NCLB: Title II, Part A, Improving Teacher Quality	14341	16,028
84.287	NCLB: Title IV 21st Century Community Learning	14350	<u>55,561</u>
Total U.S. Department of Education			<u>15,046,993</u>
<u>U.S. Department of Health &amp; Human Services - Passed through California Department of Education</u>			
Child Development Cluster:			
93.575	Child Care Federal Quality Improvement Activities	13979	593,773
93.575	Child Care Local Planning Councils	13946	55,930
93.596	Child Care and Development: Federal Child Care Center Fund	13609	<u>700,387</u>
Total Child Development Cluster			<u>1,350,090</u>
93.600	HeadStart	10016	22,555,190
93.778	Medi-Cal Billing Option	10013	<u>2,064,088</u>
Total U.S. Department of Health & Human Services			<u>25,969,368</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
Child Nutrition Programs:			
10.555	Child Nutrition: National School Lunch Program	13390	135,890
10.553	School Breakfast Program - Basic	13525	28,576
10.553	School Breakfast Program - Especially Needy	13526	<u>8,327</u>
Total Child Nutrition Programs			<u>172,793</u>
Child Care Food Programs:			
10.558	Child Care: Centers and Families Claims	13393	1,026,176
10.558	Child Care: Cash In Lieu of Commodities	13389	<u>66,524</u>
Total Child Care Food Programs			<u>1,092,700</u>
Total U.S. Department of Agriculture			<u>1,265,493</u>
<u>U.S. Department of Justice - Passed through California Department of Education</u>			
16.540	At-Risk Youth Student Information System	10045	<u>148,518</u>
Total Federal Programs			<u>\$ 42,430,372</u>

See accompanying notes to supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

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	Self- Insurance <u>Fund</u>
Unaudited Actual Financial Statements ending Fund Balances June 30, 2015	\$ 19,280,792
Adjustment to record Other postemployment benefits current year activity and ending liability in the Self-Insurance Fund.	<u>(12,643,648)</u>
Audited Ending Fund Balances, June 30, 2015	<u>\$ 6,637,144</u>

There were no adjustments proposed to any other funds of the County Office.

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See accompanying notes to supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
 For the Year Ended June 30, 2015  
 (UNAUDITED)

	(Budgeted) <u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>County School Service Fund</u>				
Revenues and other financing sources	<u>\$ 198,982,650</u>	<u>\$ 202,251,809</u>	<u>\$ 194,799,063</u>	<u>\$ 193,032,969</u>
Expenditures	205,092,786	201,820,748	176,740,892	173,516,531
Other uses and transfers out	<u>1,653,880</u>	<u>1,794,913</u>	<u>2,802,444</u>	<u>5,406,554</u>
Total outgo	<u>206,746,666</u>	<u>203,615,661</u>	<u>179,543,336</u>	<u>178,923,085</u>
Change in fund balance	<u>\$ (7,764,016)</u>	<u>\$ (1,363,852)</u>	<u>\$ 15,255,727</u>	<u>\$ 14,109,884</u>
Ending fund balance	<u>\$ 66,735,150</u>	<u>\$ 74,499,166</u>	<u>\$ 75,863,018</u>	<u>\$ 60,607,291</u>
Available reserves	<u>\$ 216,835,510</u>	<u>\$ 14,181,535</u>	<u>\$ 8,516,208</u>	<u>\$ 7,883,249</u>
Designated for economic uncertainties	<u>\$ 201,820,748</u>	<u>\$ 8,059,227</u>	<u>\$ -</u>	<u>\$ -</u>
Undesignated fund balance	<u>\$ 15,014,762</u>	<u>\$ 6,122,308</u>	<u>\$ 8,516,208</u>	<u>\$ 7,883,249</u>
Available reserves as a percentage of total outgo	<u>7.3%</u>	<u>7.0%</u>	<u>4.7%</u>	<u>4.4%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 145,833,453</u>	<u>\$ 150,758,453</u>	<u>\$ 24,317,230</u>	<u>\$ 23,820,916</u>
Average daily attendance at annual	<u>\$ 535</u>	<u>\$ 346</u>	<u>\$ 478</u>	<u>\$ 502</u>

The County School Service Fund fund balance has increased by \$28,001,759 over the past three years. The fiscal year 2015-16 budget projects a decrease of \$7,764,016. For a County Office this size, the State of California recommends available reserves of at least 2 percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo). The County Office met this requirement at June 30, 2015.

The County Office has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the 2015-16 fiscal year.

Total long-term liabilities have increased by \$126,937,537 over the past two years.

Average daily attendance has decreased by 156 over the past two years. An increase of 189 ADA is anticipated during the 2015-16 fiscal year.

See accompanying notes to supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF CHARTER SCHOOLS  
For the Year Ended June 30, 2015

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<u>Charter Schools Chartered by County Office</u>	<u>Included in County Office Financial Statements, or Separate Report</u>
ACE Empower Academy	Separate Report
Alpha: Jose Hernandez Middle School	Separate Report
Bullis Charter School	Separate Report
Discovery Charter School	Separate Report
Discovery Charter II	Separate Report
Sowntown College Preparatory - Alum Rock	Separate Report
Leadership Public Schools - San Jose	Separate Report
Magnolia Science Academy - Santa Clara	Separate Report
Rocketship Academy Brilliant Minds	Separate Report
Rocketship Alma Academy	Separate Report
Rocketship Discovery Prep	Separate Report
Rocketship Fuerza Community Prep	Separate Report
Rocketship Los Suenos Academy	Separate Report
Rocketship Mateo Sheedy Elementary	Separate Report
Rocketship Si Se Puede Academy	Separate Report
Silicon Valley Flex Academy	Separate Report
Summit Public School - Denali	Separate Report
Summit Public School - Tahoma	Separate Report
Sunrise Middle	Separate Report
University Preparatory Academy Charter School	Separate Report

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See accompanying notes to supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO SUPPLEMENTARY INFORMATION

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**NOTE 1 - PURPOSE OF SCHEDULES**

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the County Office. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts and county offices. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133 requirements, and is presented on the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2015.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 62,287,555
Less: Medi-Cal Billing Option funds expended and not received in the current year	93.778	(191,009)
Special Education funds passed through to other districts:		
Basic Local Assistance, Part B, Section 611	84.027	(17,474,447)
Preschool Grant, Part B, Section 619	84.173	(471,391)
Preschool Local Entitlement, Part B, Section 611	84.027A	(1,054,508)
Mental Health Allocation Plan, Part B, Section 611	84.027A	(1,487,022)
Preschool Staff Development, Part B, Section 619	84.173A	(5,850)
Plus: Prior year Medi-Cal Administrative Activities receivable not received	93.778	826,669
Prior Year PROMISE Grant receivable not received	84.418	<u>375</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 42,430,372</u>

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the County Office's financial condition over the past three years and its anticipated condition for the 2015-2016 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

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(Continued)



SANTA CLARA COUNTY OFFICE OF EDUCATION  
NOTES TO SUPPLEMENTARY INFORMATION

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**NOTE 1 - PURPOSE OF SCHEDULES** (Continued)

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

**NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosure in the financial statements of county offices of education which adopt Early Retirement Incentive Programs pursuant to Education Code Section 22714 and 44929. For the fiscal year ended June 30, 2015, the County Office did not adopt such a program.

INDEPENDENT AUDITOR'S REPORT  
 ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education  
 Santa Clara County Office of Education  
 San Jose, California

**Report on Compliance with State Laws and Regulations**

We have audited Santa Clara County Office of Education's compliance with the types of compliance requirements described in the State of California's *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* to the state laws and regulations listed below for the year ended June 30, 2015.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	No, see below
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	Yes
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	No, see below
After school	No, see below
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Attendance, for charter schools	No, see below
Mode of Instruction, for charter schools	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	No, see below
Charter School Facility Grant Program	No, see below

(Continued)

We did not perform any procedures related to Kindergarten Continuance as the County Office does not offer Kindergarten.

We did not perform any procedures related to Continuation Education as the County Office does not offer Continuation Education.

The County Office is not a school district, therefore we did not perform any procedures related to Instructional Time.

We did not perform any procedures related to Ratio of Administrative Employees to Teachers as the ratio does not apply to County Offices.

We did not perform any procedures related to Classroom Teacher Salaries as the ratio does not apply to County Offices.

The County Office does not offer an Early Retirement Incentive Program; therefore, we did not perform any procedures related to this program.

The County Office is not a school district; therefore we did not perform any procedures related to School Accountability Report Card.

The County Office does not operate a Middle or Early College High School; therefore, we did not perform any testing related to Middle or Early College High Schools.

We did not perform any procedures related to K-3 Grade Span Adjustment as this does not apply to County Offices.

We did not perform any procedures related to Adult Education Maintenance of Effort as the County Office does not offer Adult Education.

The County Office does not operate an After School Education and Safety Program; therefore, we did not perform any procedures related to the After School Education and Safety Program.

The County Office does not operate any Charter Schools; therefore, we did not perform any of the testing related to Charter Schools.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance with state laws and regulations as listed above of Santa Clara County Office of Education. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Santa Clara County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Santa Clara County Office of Education's compliance.

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(Continued)

## **Basis for Qualified Opinion on Compliance with State Laws and Regulations**

As described in Finding 2015-002 in the accompanying Schedule of Audit Findings and Questioned Costs, Santa Clara County Office of Education did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts. Compliance with such requirements is necessary, in our opinion, for Santa Clara County Office of Education to comply with state laws and regulations applicable to Unduplicated Local Control Funding Formula Pupil Counts.

## **Qualified Opinion on State Laws and Regulations**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Santa Clara County Office of Education complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2015. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Santa Clara County Office of Education had not complied with the state laws and regulations.

## **Other Matter**

Santa Clara County Office of Education's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Santa Clara County Office of Education's response was not subjected to the auditing procedures applied in our audit of compliance and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the State of California's *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

  
Crowe Horwath LLP

Sacramento, California  
December 15, 2015

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Board of Education  
Santa Clara County Office of Education  
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Santa Clara County Office of Education as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Santa Clara County Office of Education's basic financial statements, and have issued our report thereon dated December 15, 2015.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Clara County Office of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Clara County Office of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Clara County Office of Education's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2015-001 that we considered to be significant deficiency.

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(Continued)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Santa Clara County Office of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Responses to Findings**

Santa Clara County Office of Education's response to the finding identified in our audit are described in the accompanying schedule of Audit Findings and Questioned Costs. Santa Clara County Office of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Crowe Horwath LLP

Sacramento, California  
December 15, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE

Board of Education  
Santa Clara County Office of Education  
San Jose, California

### **Report on Compliance for Each Major Federal Program**

We have audited Santa Clara County Office of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santa Clara County Office of Education's major federal programs for the year ended June 30, 2015. Santa Clara County Office of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Santa Clara County Office of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Clara County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Clara County Office of Education's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Santa Clara County Office of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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(Continued)

## Report on Internal Control Over Compliance

Management of Santa Clara County Office of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Clara County Office of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Clara County Office of Education's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Crowe Horwath LLP

Sacramento, California  
December 15, 2015



## **FINDINGS AND RECOMMENDATIONS**

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2015

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SECTION I - SUMMARY OF AUDITOR'S RESULTS

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Significant deficiency(ies) identified not considered  
to be material weakness(es)?   X   Yes        None reported

Noncompliance material to financial statements  
noted?        Yes   X   No

**FEDERAL AWARDS**

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Significant deficiency(ies) identified not considered  
to be material weakness(es)?        Yes   X   None reported

Type of auditor's report issued on compliance for  
major programs: Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133,  
Section .510(a)?        Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.011 93.778 93.575, 93.596	NCLB: Title I Migrant Education Programs Medi-Cal Billing Option Child Development Programs

Dollar threshold used to distinguish between Type A  
and Type B programs: \$ 1,272,911

Auditee qualified as low-risk auditee?   X   Yes        No

**STATE AWARDS**

Type of auditor's report issued on compliance for  
state programs: Qualified

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015

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SECTION II - FINANCIAL STATEMENT FINDINGS

**2015-001 SIGNIFICANT DEFICIENCY – YEAR-END CLOSING PROCESS (30000)**

Criteria

Accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (Governmental GAAP) requires that the County Office maintains proper internal controls over financial reporting to ensure that the financial statements are prepared appropriately and are free from material misstatements.

Condition

The County Office of Education's Unaudited Actual financial statements presented to the auditors contained the following:

- The County Office incorrectly coded the revenue associated with a State of California contract, totaling \$205,985, as Federal revenue.
- The County Office did not properly clear out unearned revenue balances, resulting in an overstatement of unearned revenues in the County School Services Fund and Child Development Fund at June 30, 2015 totaling \$700,392 and \$186,394, respectively.
- During the year ended June 30, 2015, the principal and interest payments for the County Office of Education's Certificates of Participation were recorded as rental expense in the County School Service Fund rather than as debt service expenditures.
- The County Office did not properly clear out related interfund receivable and payable balances in the County School Services Fund and the Special Education Pass-Through Fund. The Special Education Pass-Through Fund contained approximately \$56.0 million in interfund receivables and approximately \$55.7 million in interfund payables as of June 30, 2015. The offsetting interfund payable and receivable balances were in the County School Service Fund.
- The County Office did not record the proper CalSTRS On-Behalf payment as required by the California Department of Education in its letter to LEAs on July 2, 2015.
- The County Office did not properly complete the accrual entries necessary to record the current year activity and year-end net pension liability associated with the adoption of GASB Statements No. 68 and 71.
- The County Office did not complete the modified accrual-to-full accrual conversion entries that are included in the SACS software provided by the State of California.

Effect

The County Office of Education's Unaudited Actual Financial Report, as approved by the County Office of Education's Board was not accurate, and the full accrual financial statements presented to the auditors were incomplete.

Cause

During the year ended June 30, 2015, and continuing through the year-end closing process, the County Office of Education experienced significant turnover within the Business Services Department. Internal controls were not in place to provide sufficiently-trained staff to replace the individuals who left, prior to the hiring of their replacements, which occurred after the year-end closing process was completed.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015

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SECTION II - FINANCIAL STATEMENT FINDINGS

**2015-001 SIGNIFICANT DEFICIENCY – YEAR-END CLOSING PROCESS (30000) (Continued)**

Fiscal Impact

There is no current year fiscal impact.

Recommendation

We recommend that the County Office management establish procedures to provide cross-training to individuals to perform additional functions when and if needed within the Business Services Department.

Corrective Action Plan

The County Office of Education concurs with the recommendation to provide cross-training and other technical training to the accounting staff. We are aware of the need to improve any weaknesses in the accounting function that may not have been place in the past years. We have since hired a Controller who was formerly with a CPA firm and have also filled the Assistant Controller vacancy. We are confident that the new finance leadership team will also develop internal controls to prevent the types of errors identified above.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2015

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

**2015-002 DEFICIENCY – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)**

Criteria

In order to be counted in CALPADS report 1.17, a student must have an open primary or short-term enrollment in CALPADS over Census Day (the first Wednesday in October) and meet one or more of the following criteria:

- Have a program record with an education program code of homeless, Migrant, Free Meal Program, or Reduced-Price Meal Program, that is open over Census Day;
- Have an English Language Acquisition Status of “English learner” (EL) that is effective over Census Day;
- Be directly certified in July through November as being eligible for free meals (FRPM) based on a statewide match conducted by CALPADS;
- Be identified as a foster youth based on a statewide match conducted by CALPADS; or
- Be identified as foster youth through a local data matching process and submitted to and validated by CALPADS.

Condition

FRPM:

- For 5 Students listed on the 1.17 Report as FRPM-eligible, County Office documentation indicates the students were not FRMP-eligible
- For 4 Students listed on the 1.17 Report as FRPM-eligible, County Office personnel could not produce proper documentation or the FRPM status.

ELAS:

- For 1 Student listed on the 1.17 report as EL-eligible, there is no record on either the 2013-14 or 2014-15 CELDT sheets to indicate the student was EL-eligible.

Effect

The effect of this finding is 10 students overreported for CalPADS:

	<u>Enrollment</u>	Free & Reduced Meal Program (FRPM)	English Learners (ELAS)	Both FRPM & ELAS	<u>Total</u>
As certified on CalPADS	1,682	876	570	1,099	2,545
Audit Adjustments	-	(9)	(1)	-	(10)
Adjusted counts	1,682	867	569	1,099	2,535

Cause

The errors were the result of incomplete documentation for the designation of students as FRPM and/or EL.

Fiscal Impact

As the County Office is funded based on the Minimum State Aid Guarantee, there is no fiscal impact.

(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015

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SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

**2015-002 DEFICIENCY - - UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)** (Continued)

Recommendation

The County Office should ensure that all appropriate documentation is retained and updated for all FRPM and English learner students included in the CalPADS 1.17 reports.

Corrective Action Plan

The County Office of Education is committed to supporting its districts, schools, and programs in the effective delivery of services, so proper identification of the student population is very important, even if there is no financial impact and even if the service provides are not public schools. With a new Chief Schools Officer joining the organization in December 2015, we will review current record-keeping practices at both COE sites and non-COE administered service delivery sites and identify improvements as well as reconciliation procedures.

**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**



SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2015

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<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>County Office Explanation If Not Implemented</u>
<b>2014-001 Purchasing</b>	Implemented.	
<u>Findings:</u> Several instances were noted where controls over use of Credit Cards were not followed:		
<ul style="list-style-type: none"><li>• Instances of employees paying for dues and memberships with their County credit card.</li><li>• One instance where items purchased were shipped to an employee's personal address.</li><li>• Several instances where the monthly limit of \$2,500 and/or the single purchase limit of \$500 per County policy were exceeded.</li><li>• Multiple instances where purchases did not have itemized receipts or other supporting documentation.</li><li>• Purchases of gift cards.</li><li>• Several instances where the expenditure was incurred prior to approval.</li></ul>		
<u>Recommendations:</u>		
<ul style="list-style-type: none"><li>• Employees should pay for dues and memberships with their own personal cards, and seek reimbursement from the County.</li><li>• All purchases should be shipped to the County Office or a SCCOE-owned facility.</li><li>• The limits should be monitored so that they are not exceeded without accountability.</li><li>• All credit card purchases should be substantiated by itemized receipts.</li><li>• The Business Office should investigate the purpose of these purchases further. All future purchases should be substantiated by evidence that the purchase was for SCCOE business.</li><li>• All expenditures should be pre-approved in accordance with SCCOE guidelines. This will ensure that the County Office has appropriated an amount for this purpose.</li></ul>		

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2015

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<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>County Office Explanation If Not Implemented</u>
<p><b>2014-002 Contract Approval</b></p> <p><u>Finding:</u> Payments were approved by the Superintendent's Office to a company for the purchase and installation of playground equipment. Upon further inquiry, it was discovered that the County Office had originally sent out a request for proposal for similar work in 2008. However, there is no documentation showing that the company who ultimately provided and installed the equipment in 2013-14 had submitted a proposal during the initial 2008 request for proposals. Furthermore, the approval of the payments made to the company were split onto two separate purchase orders, which both reference the bid number on the original RFP. Upon further inquiry into the approvals for the payments, it was discovered that the purchase orders were both approved after the work had been completed.</p> <p><u>Recommendation:</u> No payments should be made on contracts that have not been approved in accordance with SCCOE policies and procedures.</p>	Implemented.	
<p><b>2014-003 Cash Receipts</b></p> <p><u>Finding:</u> In eight instances out of a sample of 20 deposits, adequate supporting documentation was not maintained from the point of collection to deposit. All of the deposits were for cash collections at SCCOE school sites.</p> <p><u>Recommendation:</u> SCCOE should implement procedures and provide pre-numbered receipt books to each site so that adequate records can be maintained from the point of collection to deposit.</p>	Implemented.	

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(Continued)

SANTA CLARA COUNTY OFFICE OF EDUCATION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2015

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<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>County Office Explanation If Not Implemented</u>
<b>2014-004 Instructional Materials Hearing</b>	Implemented.	
<u>Finding:</u> The public hearing notice was only posted at the County Office of Education Administration building.		
<u>Recommendation:</u> The County Office of Education should post all public notices at the County Office Administration building, on the County Office's website, and at all the County Office's locations to ensure the public is notified of future actions.		
<b>2014-005 CALPADs Unduplicated Pupil Counts</b>	Not implemented.	
<u>Finding:</u> One student was incorrectly classified as FRPM eligible (FRPM) in the CALPADS 1.17 and 1.18 reports.		Refer to Finding 2015-002
<u>Recommendation:</u> The County Office of Education should implement a review procedure of the CALPADS information prior to the reports being submitted to the California Department of Education.		